House of Representatives
Intergovernmental, Urban and Regional Affairs Committee
February 14, 2007

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Organization and Finance Issues Facing Michigan Local Governments

General purpose and special purpose governments in Michigan are facing unique challenges. The emerging issues have resulted from a compounding effect of marginal and non-marginal changes to state law and tax policy while other issues have their roots in the volatile economy of the state. The interdependency between state and local government cannot be ignored. Changes in the state's fiscal condition directly impact the financial condition of local governments. The disparate growth in tax base of the state further widens the gap between the "haves" and "have nots" and between older central cities and growing suburban communities (wealth disparities). Local governments, for the most part, have extracted most of the economic efficiencies in their governmental operations. Reorganizing local production and delivery services through contracting, joint production arrangements and consolidation offer some potential for gaining additional efficiences. Further reduction or changes in funding flows will result in difficult choices for local officials not unlike choices facing the legislature. Following are issues that the Intergovernmental, Urban and Regional Affairs Committee may wish to include on their agenda. Some issues have rather straightforward policy solutions while other represent long term challenges. Committee member no doubt have heard or will hear variations of the outlined themes from the county, municipal and township associations.

1. Structure and Organization of Michigan Local Governments

Public discussion over a number of years has highlighted what is perceived to be too many local governments in Michigan. The assumption is that larger units will yield lower costs and achieve greater efficiencies in service delivery. Lower costs can generally be achieved through consolidation with community services with high fixed costs (e.g. - sewer, water, fire protection) however; services that are personnel intensive may not achieve economies of scale through consolidation. To require a unit to provide a service to community residents does not mean that the unit has to produce the service, thus opening up other opportunities for organizing service production such as through contracting with either public or private sector.

General Purpose Governments
- □ Counties (83)
  (One charter county Wayne)
- □Townships (1,242)
  Charter (132) General Law (1,110)
- □ Cities (274) (all home rule)
- □Villages (259)
  Home Rule (48) General Law (211)

Special Purpose Governments
- □ K-12 School Districts (557)
- □ Intermediate School Districts (57)
- □ Community Colleges (29)
- □ Authorities (250+)

Townships were created in the Great Lake States as part of the Northwest Ordinance of 1785 and 1787 (congressional townships). Thus while state government provides the enabling powers, their derivation differs from other states with townships. State laws permits township consolidation, a local matter with approval of the county board of commissioners and township voters.

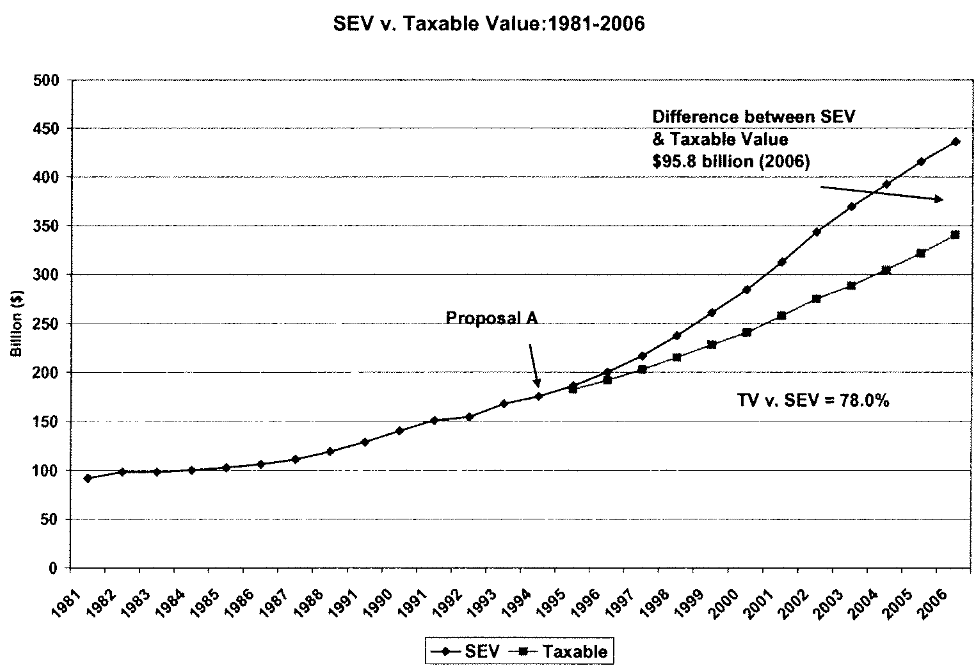
In Michigan, we have been about creating governments not consolidating. Only one city consolidation in state's history (cities of Iron River, Stambaugh and village of Mineral Hills consolidated in 2000 to form Iron River city). Battle Creek Township and city of Battle Creek merged through the city annexing the entire township. Thirty six percent of the cities in Michigan organized since World War II.

2. **Headlee/Proposal A Interaction and Resulting Impacts**[1]

a. Growing gap between Taxable Value and SEV (see Table 1 and Attachment A);
b. Headlee Rollback and erosion of taxing capacity;
c. Counting recaptured taxable value against Headlee rollback versus new value;
d. Built-out communities, especially central cities, are destined to have restraints on revenue generating ability due to recapture provision.[2]
e. New home buyers or individual changing housing bear a disproportionately higher tax price for services thus the property tax differential between new entrants to a neighborhood versus long term homeowners is growing. One could expect a political backlash once these differentials are transparent to homeowners. Equity in tax distribution is the central issue in the taxable value uncapping problem.

Proposed Action: Amend the General Property Tax Act to designate recaptured taxable value (uncapped value) to be treated as new development and exempt from Headlee Rollback

Table 1



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[1] For further discussion see "The Growing Difference between State Equalized Value and Taxable Value in Michigan" CRC Report No. 1058, March 2001. http://www.crcmich.org/PUBLICAT/2000s/2001/memo1058.pdf

[2] For more detailed analysis see "System Failure: Michigan's Broken Municipal Finance Model" Frank W. Audia and Denise A. Buckley, Plante & Moran, prepared for Michigan Municipal League, 2004.

3. **Enhanced revenue generating options for local units**
   a. Local option sales tax
   b. Countywide income tax (presently 22 cities have exercised city income tax option)
   c. ***The Task Force on Local Government Service and Fiscal Stability***, May 2006, provided a detailed summary of policy changes to assist local governments in addressing financial concerns. ***Task Force*** representatives will address this committee on February 21st.

4. **Tax Base Sharing for Local Governments**
   a. Michigan's current policy of "winner take all" related to location of new private investments (housing, commercial and industrial development) contributes to stressed intergovernmental relationships, annexation fights and patterns of development location decisions that may not be in the collective interest of communities.
   b. The "Conditional Land Transfer Program" (PA 425, 1984); involves a form of tax base sharing but in the long run because of legal interpretation will create jurisdictional boundary issues over the next three decades. Amendments to the law are needed to head off these impending issues (see item 5).

Proposed Action: Explore the potential for creating a win-win situation for intra-jurisdictional competition for economic development location such as the Minneapolis-St. Paul program of "industrial and commercial tax base sharing on a regional basis model."

5. **Conditional Land Transfer Program – PA 425**[3]
   a. Often referred to as the "alternative to annexation" the Conditional Land Transfer Program has gained wide-popularity throughout the state and was viewed as a policy approach to create a win-win situation between cities and townships over land disputes over capturing the rents related to economic development. However, several issues have emerged that need to be resolved by the legislature.
      i. Review Process – currently a city and township agree to the terms of a PA 425 agreement, once the agreement is adopted by the respective municipal bodies, the agreement is sent to the Secretary of State's Office of the Great Seal for recording. The agreements lack review by planning bodies or other oversight policymaking boards to insure consistency with planning goals and objectives for the local units involved.
      ii. A Length of Agreement – the statute permits 425 agreements to extend to 50 years in length. Fifty years is an extremely long period of time for economic adjustment to occur. The agreements will transcend numerous terms of office of township board and city council members. A mandatory five year review would be useful in bringing sunshine on the agreement such that elected representatives are familiar with the agreements in place.
      iii. Reversion conditions at end of the agreement – the statute permits the land included in the conditional transfer to become either permanently

[3] For further discussion see "The Conditional Land Act: Research, Reflections and Recommendations" by Gary Taylor, Lynn Harvey and Will Shields, MSU Ag Economics, December 2003. Complete report can be found at http://www.aec.msu.edu/agecon/government/index.htm

attached to the city at the end of the agreement or transfer back to the unit of origin. The city of Three Rivers has 19 separate 425 agreements with two townships with differing terms and conditions such as revenue sharing terms and reversion conditions at the end of the agreements. Of the 268 425 agreements on file at Office of Great Seal, 32 percent state that the land in question reverts to the township at the end of the agreement. This has the potential to create significant policy issues over the ownership of infrastructure investments developed over the 50 years to support economic development. Nine of the agreements are silent as to how the land in question is disposed of at the termination of the agreement.

iv. Contiguity of Land Conditionally Transferred – With annexation, land subject to annexation must be contiguous to the city proposing annexation. The PA 425 Program has no such requirement regarding the issue of contiguity which has lead to the emergence of 425 agreements involving a number of "islands" of land not contiguous to the city. A good example exists in Lansing with the City of Lansing and Alaiedon Township agreement where the economic development site is seven miles from Lansing, yet workers at the insurance company pay Lansing city income tax. If the dual purpose of the PA 425 statute is the promotion of economic development and a "win-win" approach to annexation, the current interpretation and use of the policy tool violates the spirit of the act.

Proposed Action: Amend the Conditional Land Transfer statute in the following manner:

a. Require coordinated planning and review of proposed agreements
b. Shorten the contract period to 10-15 years and require a mandatory review of the agreement every five years to maintain familiarity with the agreement. [Note research in the 1990s revealed that ten years after the first agreements were filed, 33 percent of the units involved expressed no knowledge of such agreements]
c. Eliminate reversion option. Once land transferred and the transferring unit receives compensation over a number of years, at contract expiration, the land should remain with the city.
d. Require contiguity.
e. Require statistics be maintained to identify when agreements end.

6. Revising the State Revenue Sharing Program

Since the state revenue sharing program will sunset in FY 2007 for cities, villages and townships, the legislature will be required to revisit the distribution of the statutory portion of the SRS fund. The statutory formula based distribution is redistributive in design and from a policy perspective achieves the goal of recognizing fixed investments and associated costs incurred by older communities which are either built-out or losing population to suburban communities. The constitutional distribution of SRS on a per capita basis recognizes costs associated with population growth thus as communities experience population growth such as townships the current revenue sharing program accommodates the growth in the distribution of SRS funds. Additionally, the legislature will need to plan for the eventual eligibility of counties that will be eligible for state revenue sharing funds once the county SRS fund expires. The first county eligible for SRS funds will occur in FY 2009 but counties will be spread out over a 20 year period in terms of re-entry to the SRS program.

The legislature has not only a constitutional and statutory obligation to engage in intergovernmental transfers with sub-state units of government but also has a long standing social contract with local units. Over the years, the legislature has usurped taxing powers from locals in exchange for a variety of revenues sharing strategies and commitments. Since the state has greater taxing flexibility compared to local units, it behooves the legislature to examine carefully the interdependent funding commitments with local governments.

The importance of state revenue sharing varies widely both by type of local government, size and tax base. If revenue sharing payments are converted to "millage equivalent", one can gain a perspective as to the importance of revenue sharing to local units.

7. **Governmental Organization**

The recent economic downturn with the resulting structural deficit for the state has placed additional financial strain on-subs-state units of government. The growing financial gap between the "financially sound" and the "barely making it group" of local units is widening. It is predicted that there will be an increased interest in exploring alternative institutional arrangement for community service delivery. The alternatives arrangements will take many forms. Three types of consolidation offer potential: **functional** (service or activity level); **geographic** (school districts serve as an example) and **political** (two or more units combining into one, only one such consolidation in Michigan, Iron River). If the state is interested in promoting both efficiency and effectiveness in community service delivery, then a <u>restructuring of state incentives</u> will need to take place. Given a choice, local units would rather be self-producers and self-providers rather than collaborators in community service delivery. The state is in a position to offer incentives to promote governmental collaboration. These incentives could take the form of "transition payments" to units who merge services, form joint production arrangements or create authorities (special purpose governments). Additionally, units that consolidate services or politically consolidate could be eligible for premium revenue sharing payments for a 3-5 year period or other type payments to assist the units in their consolidation efforts. Or perhaps the state could create a special service or grant fund program that local units could tap as they move towards consolidation could access to assist with planning and implementation.

Proposed Action –

a. Create a transition payment to local units who consolidate, establish authorities or form joint working arrangements for community service delivery.
b. Provide bonus or premium revenue sharing payments to local governments who consolidate governments.
c. Create a pool of funds which local units exploring consolidation or collaboration efforts can tap to assist with planning and implementation.

Attachment A

RANK*	COUNTY	2000 SEV	2000 Taxable Value	2006 SEV	2006 Taxable Value	Chg. 00-06 SEV (%)	Chg. 00-06 TV (%)	2006 TV vs. SEV
37	ALCONA	617,876,433	499,238,511	1,010,506,899	687,301,740	63.55	37.67	68.02
39	ALGER	262,647,000	202,119,800	427,637,690	287,083,194	62.82	42.04	67.13
38	ALLEGAN	3,210,748,024	2,585,556,328	5,245,793,934	3,869,212,894	63.38	49.65	73.76
55	ALPENA	741,600,945	637,426,173	1,154,672,041	867,352,662	55.70	36.07	75.12
5	ANTRIM	1,330,947,538	1,038,898,949	2,673,674,000	1,593,100,998	100.89	53.35	59.58
36	ARENAC	453,293,697	371,941,505	743,671,204	508,527,559	64.06	36.72	68.38
51	BARAGA	178,182,490	135,218,835	283,602,138	188,261,493	59.16	39.23	66.38
27	BARRY	1,447,371,269	1,159,139,640	2,449,378,100	1,707,825,147	69.23	47.34	69.72
81	BAY	2,520,159,400	2,198,530,045	3,378,626,600	2,885,863,806	34.06	31.26	85.42
2	BENZIE	808,095,828	591,213,030	1,657,420,460	943,613,673	105.10	59.61	56.93
42	BERRIEN	4,808,707,483	4,164,176,241	7,805,264,151	5,842,412,095	62.32	40.30	74.85
67	BRANCH	1,092,411,381	839,397,784	1,633,268,071	1,176,543,411	49.51	40.17	72.04
79	CALHOUN	3,081,994,046	2,597,305,710	4,305,027,216	3,470,883,407	39.68	33.63	80.62
50	CASS	1,412,721,420	1,060,799,759	2,249,391,796	1,542,744,736	59.22	45.43	68.58
4	CHARLEVOIX	1,470,822,675	1,166,765,074	2,976,123,702	1,866,066,831	102.34	59.94	62.70
7	CHEBOYGAN	1,074,938,780	816,754,611	2,027,366,522	1,223,517,321	88.60	49.80	60.35
61	CHIPPEWA	813,204,891	653,632,320	1,248,014,561	897,212,364	53.47	37.27	71.89
28	CLARE	799,891,886	638,636,661	1,341,708,590	922,165,384	67.74	44.40	68.73
8	CLINTON	1,615,699,002	1,386,517,744	3,010,358,205	2,256,762,119	86.32	62.76	74.97
44	CRAWFORD	456,573,495	386,099,782	734,819,120	543,015,260	60.94	40.64	73.90
80	DELTA	949,954,595	762,299,407	1,313,278,170	1,001,249,317	38.25	31.35	76.24
78	DICKINSON	687,616,195	625,234,053	960,813,902	825,715,132	39.73	32.06	85.94
45	EATON	2,530,719,656	2,214,220,187	4,071,812,613	3,229,545,910	60.90	45.85	79.31
10	EMMET	2,028,543,012	1,665,096,167	3,748,823,600	2,559,443,004	84.80	53.71	68.27
71	GENESEE	9,368,113,409	8,157,573,739	13,695,827,367	11,320,948,189	46.20	38.78	82.66
24	GLADWIN	724,266,365	580,067,762	1,235,255,977	861,570,620	70.55	48.53	69.75
56	GOGEBIC	388,105,007	300,205,947	601,633,237	407,215,873	55.02	35.65	67.69
12	GR.TRAVERSE	3,035,139,549	2,444,761,999	5,469,883,048	3,881,075,544	80.22	58.75	70.95
75	GRATIOT	794,334,151	623,315,948	1,132,600,298	813,831,266	42.58	30.56	71.86
64	HILLSDALE	1,120,159,535	891,816,255	1,708,109,013	1,250,345,615	52.49	40.20	73.20
54	HOUGHTON	559,184,707	429,589,249	872,951,637	602,627,086	56.11	40.28	69.03
74	HURON	1,396,573,578	1,118,252,431	1,991,741,700	1,472,665,326	42.62	31.69	73.94
62	INGHAM	6,161,135,124	5,443,778,475	9,439,028,534	7,522,177,686	53.20	38.18	79.69
49	IONIA	1,162,172,600	926,204,150	1,856,021,497	1,394,389,402	59.70	50.55	75.13
53	IOSCO	889,727,857	755,564,655	1,409,459,972	1,047,837,777	58.41	38.68	74.34
22	IRON	344,401,850	273,024,860	588,609,718	385,333,562	70.91	41.13	65.47
16	ISABELLA	1,135,551,158	925,320,730	1,970,978,179	1,409,975,482	73.57	52.38	71.54
48	JACKSON	3,634,670,924	2,777,596,457	5,815,259,690	4,220,570,890	59.99	51.95	72.58
69	KALAMAZOO	6,085,319,646	5,383,527,193	8,997,222,049	7,546,721,917	47.85	40.18	83.88
19	KALKASKA	587,540,153	482,712,269	1,014,181,991	680,131,017	72.61	40.90	67.06
70	KENT	15,912,899,100	14,398,276,117	23,346,848,319	20,223,487,574	46.72	40.46	86.62
6	KEWEENAW	84,294,093	62,833,658	164,866,788	96,671,891	95.59	53.85	58.64
18	LAKE	417,372,382	305,873,631	722,562,550	449,039,474	73.12	46.81	62.15
41	LAPEER	2,596,452,794	2,009,003,207	4,221,145,112	2,989,701,382	62.57	48.82	70.83
1	LEELANAU	1,680,367,474	1,265,766,489	3,459,301,410	1,996,601,598	105.87	57.74	57.72
66	LENAWEE	2,698,843,532	2,186,858,756	4,044,475,763	3,101,144,428	49.86	41.81	76.68
13	LIVINGSTON	6,011,674,909	5,050,365,942	10,641,862,310	8,348,502,046	77.02	65.30	78.45
58	LUCE	163,307,526	111,412,105	251,799,025	163,374,240	54.19	46.64	64.88
31	MACKINAC	742,423,874	570,369,463	1,233,503,991	801,024,891	66.15	40.44	64.94
63	MACOMB	24,316,921,236	21,099,256,420	37,228,328,919	30,373,918,359	53.10	43.96	81.59
9	MANISTEE	811,168,309	631,558,337	1,504,426,342	961,141,383	85.46	52.19	63.89
35	MARQUETTE	1,318,041,814	1,142,121,851	2,163,251,337	1,589,526,919	64.13	39.17	73.48
43	MASON	1,114,953,104	955,801,416	1,806,224,801	1,309,695,171	62.00	37.03	72.51
15	MECOSTA	920,582,843	756,514,669	1,606,280,739	1,134,815,688	74.49	50.01	70.65
29	MENOMINEE	471,668,280	390,919,532	789,149,221	545,879,679	67.31	39.64	69.17
83	MIDLAND	3,110,063,632	2,943,058,718	4,090,658,301	3,617,040,695	31.53	22.90	88.42

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RANK*	COUNTY	2000 SEV	2000 Taxable Value	2006 SEV	2006 Taxable Value	Chg. 00-06 SEV (%)	Chg. 00-06 TV (%)	2006 TV vs. SEV
23	MISSAUKEE	423,289,434	336,939,912	723,194,873	471,477,610	70.85	39.93	65.19
77	MONROE	5,217,216,871	4,516,473,282	7,297,680,821	5,888,104,844	39.88	30.37	80.68
30	MONTCALM	1,323,533,450	1,052,948,483	2,199,646,218	1,574,397,271	66.19	49.52	71.58
52	MONTMORENCY	413,422,758	331,359,555	657,894,762	436,587,697	59.13	31.76	66.36
65	MUSKEGON	3,475,535,083	2,969,387,077	5,295,156,733	4,237,701,230	52.36	42.71	80.03
33	NEWAYGO	1,134,834,989	854,785,579	1,863,882,291	1,261,209,460	64.24	47.55	67.67
72	OAKLAND	52,437,365,830	44,370,760,909	76,439,725,583	62,133,415,235	45.77	40.03	81.28
3	OCEANA	780,630,879	615,995,225	1,580,534,815	943,150,042	102.47	53.11	59.67
32	OGEMAW	681,866,525	514,301,521	1,121,130,470	754,194,290	64.42	46.64	67.27
17	ONTONAGON	194,382,642	153,232,609	336,690,487	207,353,007	73.21	35.32	61.59
34	OSCEOLA	578,532,624	452,860,768	949,629,255	625,999,069	64.14	38.23	65.92
40	OSCODA	313,947,907	239,016,357	510,883,384	342,012,558	62.73	43.09	66.95
57	OTSEGO	1,027,910,635	863,836,743	1,591,354,397	1,178,509,814	54.81	36.43	74.06
60	OTTAWA	7,181,351,351	6,192,771,645	11,028,221,992	9,027,094,310	53.57	45.77	81.85
11	PRESQUE ISLE	497,395,562	399,551,782	904,744,169	574,213,724	81.90	43.71	63.47
25	ROSCOMMON	1,057,608,830	836,108,314	1,793,917,614	1,224,506,854	69.62	46.45	68.26
82	SAGINAW	4,371,021,814	3,937,401,156	5,856,418,820	5,040,003,270	33.98	28.00	86.06
59	SAINT CLAIR	5,318,228,755	4,532,540,516	8,179,319,075	6,173,701,797	53.80	36.21	75.48
76	SAINT JOSEPH	1,565,264,136	1,223,999,776	2,197,691,823	1,638,877,080	40.40	33.90	74.57
46	SANILAC	1,260,251,939	963,057,385	2,024,930,105	1,330,951,991	60.68	38.20	65.73
21	SCHOOLCRAFT	270,949,234	200,046,807	463,622,877	299,659,340	71.11	49.79	64.63
47	SHIAWASSEE	1,470,594,900	1,198,615,452	2,353,253,350	1,710,175,822	60.02	42.68	72.67
68	TUSCOLA	1,246,019,168	988,950,752	1,861,296,396	1,351,878,756	49.38	36.70	72.63
14	VAN BUREN	1,946,490,137	1,611,467,682	3,445,454,613	2,594,482,671	77.01	61.00	75.30
26	WASHTENAW	10,951,329,363	9,659,379,194	18,545,553,160	14,629,742,407	69.35	51.46	78.89
73	WAYNE	44,392,225,103	37,296,590,731	64,401,640,723	50,572,359,004	45.07	35.60	78.53
20	WEXFORD	743,486,040	615,283,971	1,273,284,019	909,599,769	71.26	47.83	71.44
	MICHIGAN	**284,426,837,615**	**240,717,183,929**	**436,421,254,945**	**340,545,761,049**	53.44	41.47	78.03

* Ranking based on SEV increase 2000-2006; "1" equals highest growth rate.
** Taxable value divided by SEV = percent
Source: MI Dept of Treasury Reports
Compiled by: Dr. Lynn R. Harvey, MSU - August 2006